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AUTHOR Robinson, Michael J.; Olszewski, Ray
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ABSTRACT

This is one of several papers presented at a Federal Trade Commission Symposium on Media Concentration. It provides a base for policy research on the economics of book publishing. The structure of the book production and distribution industry is described and some economic properties that distinguish it are identified. Aggregate industry trends are reviewed. Key policy issues are identified, and the role economic analysis can play in addressing these issues is discussed. An agenda for policy-relevant economic research on the book industry is outlined. Some of the elements identified as central to such research are: apply modeling techniques to the industry that assume many differentiated products with seller uncertainty about the composition of demand; search for possible economic efficiency bases for the current industry structure; investigate the factors that influence whether a book will be financially successful and examine whether particular participants benefit from their strategic position concerning those factors; and identify the economic costs of and workable strategies for promoting increased access where efficient markets and easy access to the "marketplace of ideas" are in conflict. (MKM)

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THE ECONOMICS OF BOOK PUBLISHING

by

Michael J. Robinson
and
Ray Olszewski

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*Department of Economics
Stanford University
Stanford, California
94305

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The Economics of [illegible]ok Publishing

I. Introduction

In 1978, after an investigation lasting a year, the Justice Department brought suit to force CBS Inc. to divest itself of Fawcett Publications. Justice alleges anticompetitive effects of the acquisition on the mass market paperback industry. CBS had already been in the mass market paperback field, publishing under Popular Library, prior to acquiring Fawcett. According to the Justice Department, "the effect of the acquisition...may be substantially to lessen competition or to tend to create a monopoly," a violation of Section 7 of the Clayton Act. Besides asking that CBS divest itself of Fawcett and restore the publisher to its preacquisition competitive posture, Justice also asked that CBS "be enjoined from acquiring the stock or assets of any firm engaged in the publishing, distribution or sale of mass market paperback books,"

Besides increasing its market share by acquiring Fawcett, CBS thereby acquired one of the major national distributors of paperbacks. Such linking of publishing and distribution, according to Justice, is an important barrier to entry to the business of publishing mass market paperbacks. Other barriers to entry Justice cited in the CBS complaint were the difficulty of competing for bookstore sales without a significant backlist and the problem of allocation of rack space at mass market paperback outlets.

The Authors' Guild, an association of some 5000 authors, filed statements asking the FTC and the Department of Justice

"appropriate action under Section 7 of the Clayton Act to end restrictive effects of the merger takeover trend in the American book publishing industry." The Guild argues that publishing companies are allying with other publishing companies, either reducing competition or vertically integrating, and communication conglomerates or outside conglomerates are buying into the industry. The claimed effect of such acquisitions on independent publishers within any given division of the book publishing industry, like mass market paperbacks or book club sales, is to increase their competitive disadvantage. According to the Guild, independent publishers have fewer resources for advertising, promotion, and distribution than the conglomerates; in bidding for authors and rack space in retail chains, independents will lose out to bigger firms with greater working capital and better distribution systems. For an author, the increased concentration means decreased access to the market and fewer outlets for author publication. Its impact on the market-place for ideas, according to the Authors' Guild, is to introduce risk of corporate pressure on editors and the production process, pressure that would not be a problem with the existence of independent companies. Mergers and acquisitions reduce the number of diverse and antagonistic sources, the Guild concludes.

Not surprisingly, publishers, represented by the Association of American Publishers (AAP), hold to the position that their industry is performing well. The AAP argues that publishers have needed mergers ' get required capital. The majority of acquisitions have been of "failing" publishers. Mergers, AAP argues, promote diversity b

the survival of smaller publishers under stronger financial ownership. AAP alleges that while "mergers between the nearly 1200 book publishing companies shows a continuing trend, ...the interest of non-publishing conglomerates appears to be diminishing."

Moreover, AAP claims, using Commerce Departmemt data, that the number of book publishers has increased about 25% (to 1,128) from 1958 to 1976, evidence of the ease of entry into the industry. The entire market for books has expanded, it concludes, despite mergers and acquisitions, with a greater abundance of outlets and steadily increasing title output from 18,000 in 1960 to 40,000 in 1976.

The print media occupy a traditionally important place in American society. Given this fact, and given the serious charges made that publishing industry trends are stifling the free flow of ideas, we look with concern on the small amount of policy research done by economists on book publishing.

Our purpose in this paper is to provide a small beginning for such research. In section II, we describe the structure of the book production and distribution industry, identifying some economic properties that distinguish it. In section III we briefly review aggregate industry trends. In section IV, we attempt to identify key policy issues and discuss the role economic analysis can play in addressing these issues. In the concluding section V, we outline an agenda for policy-relevant economic research on the book industry.

II. Structure of the Industry

The output of the book industry is a set of highly differentiated products, differentiation indicated both by physical differences in products and, more importantly, differences in method of distribution to consumers. The production process--from manuscript to book on retail shelves--involves several stages. Figure 1 summarizes the process of creating and distributing a book.

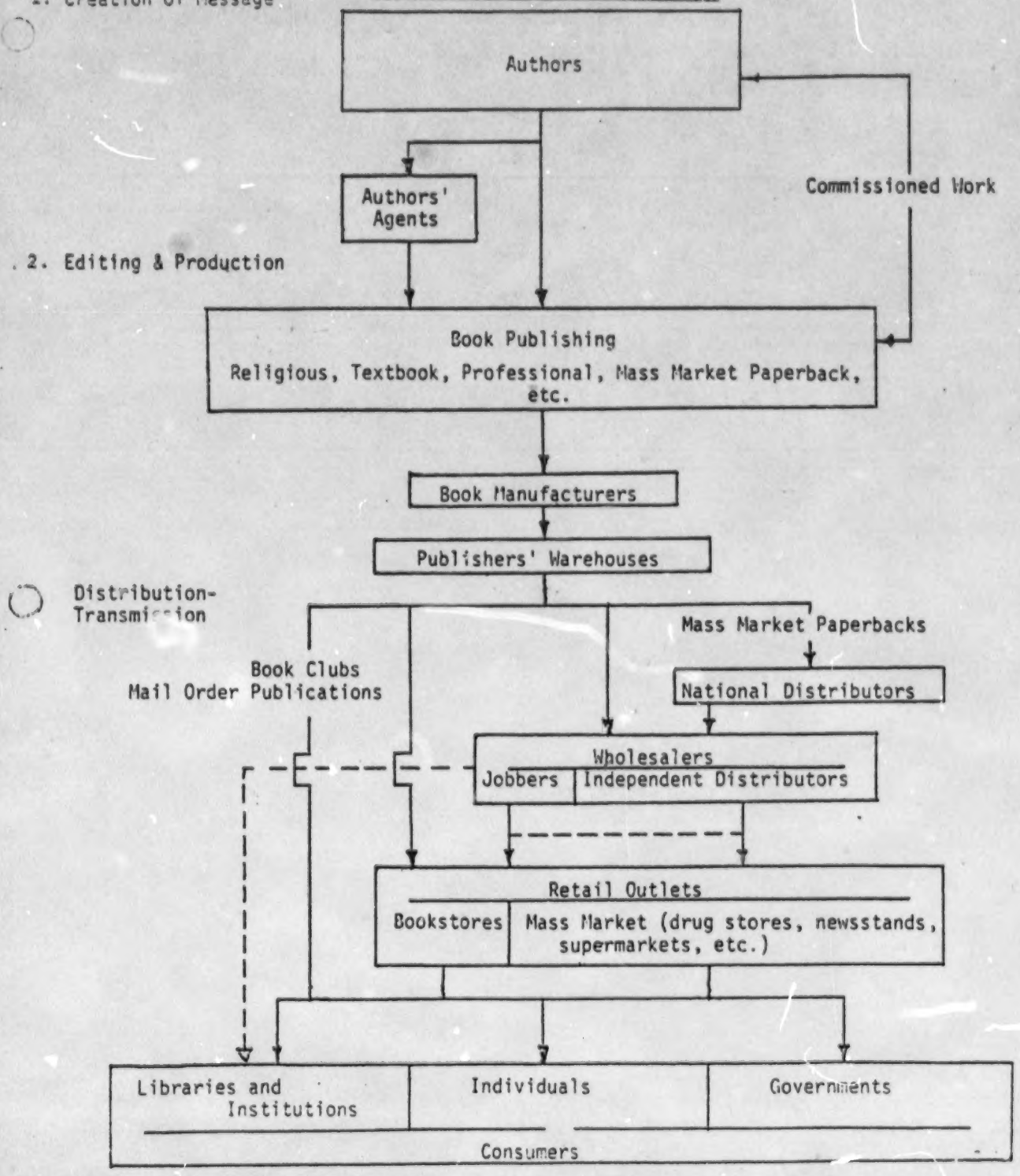
1. Creation

a. Authors

The initial stage in the production process of a book is the creation of a manuscript, the work of an author. Copyright laws provide protection for all works, published and unpublished, that are fixed in a copy. On January 1, 1978, the new copyright law of the U.S. became fully effective. Copyright exists from the date of creation of a work--when the work is fixed in a copy. All original works of authorship can be registered for copyright whether they are published or unpublished. The basic term of copyright for works created after the effective date of the new law is the life of the author plus 50 years. The exclusive rights of the copyright owner are intended to provide monetary incentives sufficient to motivate authors to write, produce, make public, and disseminate creative works without serving as a basis for unnecessary restrictions on use of the works. An important addition in the new law gives authors the right to terminate grants of exclusive or nonexclusive rights made on or after January 1, 1978. This power

1. Creation of Message

Figure 1: Stages of Production



should give an author a second chance to exploit his work once its worth has become established in the market.

The mechanisms by which authors are paid for their works vary. An author may opt for a form of self-publishing, either co-publishing or through the "vanity press." In either case, the author bears the full risk of uncertain sales. Or the author may share some of the risk with a publisher through arrangements such as profit sharing or stock option agreements. But generally an author is paid a royalty per copy sold, a lump sum payment, or a combination of the two.

The payment of advances provides a means by which lump-sum and royalty per copy arrangements can be combined. An advance is an advance payment of royalties, but is non-refundable to the publisher regardless of the success or failure of the book. A usual contract specifies that when sales pass a specified number of copies, the royalty percentage rises. For example, with initial publication rights going to a hardcover publishing house, an author may be paid 10% of the list price for the first 5,000 copies sold, 12% of the next 5,000, and 15% thereafter.

As Table A indicates, besides royalties and advances against royalties, subsidiary rights generate income for the author. The contract between the author and the publisher usually covers subsidiary rights, that is, reprint rights authorized by the publisher. Usually subsidiary income is split equally between publisher and author, but recently the percentages have been changing to favor the author.

Table A

Estimated Authors' Royalties and
Subsidiary Rights Income
(millions of dollars)

	1972	1976	% Change
Consumer Books	$139.7	$201.1	44.0
Trade	107.1	149.2	39.3
Religious	12.0	15.0	25.0
Other	20.6	36.9	79.1
Professional Books	36.1	53.4	47.9
Reference & Scholarly Books	9.3	11.3	21.5
Textbooks	99.4	130.5	31.3
Total	$284.5	$396.3	39.3

Source: Publishers' Weekly.

Note: Subsidiary income earned by authors directly from such sources as TV and motion picture adaptations is not included.

b. Agents

Agents are used only by authors of trade books, which include mass market books. The only information source on the numbers of agents listed 143 in 1958, 135 in 1972 and 202 in 1977.[1] Agents perform many of the traditional functions of the trade-book publisher: "manuscript screening, finding new writers, conceiving book ideas, and recruiting authors to produce them, working with the author in shaping up the manuscript, and negotiating on his behalf for certain subsidiary rights."[2] Authors make contractual agreements with agents and in some cases publishing houses deal only with authors who have agents.

2. Production

a. Publishing

Publishers convert manuscripts into books. A manuscript is a collection of information. This information has important "public good" characteristics: the cost of its creation is unrelated to the number of people who will use it. Publishers embody this public good in the form of a private good, a physical book. Copyright laws make possible this conversion of information into a marketable commodity by giving the author an enforceable property right in the manuscript's content, thereby making unauthorized reproduction illegal.

The publishing industry produces not one product but many. At the finest level of analysis, each title in print is a different product, each publisher a multi-product firm. At a more general level, the

[1] Applebaum, 1978, pp. 27.
[2] Dessaur, 1974, pp. 32.

industry and its observers find useful distinctions of sub-markets of similar books. These sub-markets can be disaggregated in many ways. Table B contains output statistics divided by subject matter. Table C reports sales trends aggregated by class of content. In our subsequent discussion, we will distinguish these two product classes:

- trade books: books designed for the general consumer; they are not designed for educational purposes, but in recent years they have been used this way. They are sold through bookstores, may be designed for adults and children.

- mass market paperbacks: paperbounds usually of standard rack size (4¼ x 7"). They are distributed predominantly to mass market outlets such as newsstands, drug stores and variety stores. Many are reprints of hardcover trade books; others are originally published in this format. They sell at an average price substantially lower than the price of trade paperbacks and hardcover books. Staples of the mass market publishing industry include hardcover best sellers, 'escape' fiction such as romances and Gothics, and tie-ins with film or TV.

These two classes teachnically exclude many books: religious books, medical books, technical and scientific books, textbooks, and others. But, for our purposes, they cover the key areas of policy concern.

Book clubs have traditionally been part of the publishing industry; they might be better classed as a retail channel. Distinctions are made between consumer and professional book clubs. Consumer book

TABLE B

American Book Title Output by Subject Matter, 1961-1977

	1961	1964	1968	% Change 1961-1968	1972
Agriculture	231	285	249	8	380
Art	620	906	1,117	80	1,470
Biography	790	948	1,123	42	1,986
Business	350	575	772	121	684
Education	534	1,232	1,125	111	1,292
Fiction	2,630	3,271	2,811	7	3,260
General Works	275	532	749	172	1,048
History	1,049	1,328	1,528	46	1,629
Home Economics	191	237	312	63	596
Juveniles	1,626	2,808	2,482	53	2,526
Language	307	301	502	64	479
Law	256	346	581	127	716
Literature	888	1,454	2,106	137	2,525
Medicine	776	1,211	1,277	65	1,839
Music	155	214	290	87	402
Philosophy/psychology	565	766	946	67	1,164
Poetry/drama	615	936	1,062	73	1,484
Religion	1,290	1,830	1,791	39	1,705
Science	1,494	2,738	2,407	61	2,586
Sociology/economics	1,613	3,272	4,070	152	6,415
Sports/recreation	444	582	644	45	941
Technology	781	1,125	1,262	62	1,425
Travel	580	1,024	1,181	104	1,491
Total	18,060	28,451	30,387	68	38,043

-continued

Table B
(concluded)

	1975	% Change 1968-1975	1976	1977
Agriculture	456	83	600	598
Art	1,561	40	1,681	1,795
Biography	1,068	75	2,085	2,104
Business	820	6	983	1,077
Education	1,038	-8	1,078	1,194
Fiction	3,805	35	3,836	3,681
General Works	1,113	49	1,261	1,448
History	1,823	19	2,295	2,022
Home Economics	728	133	806	795
Juveniles	2,292	-8	2,478	2,918
Language	438	-13	523	556
Law	915	57	861	948
Literature	1,904	-10	1,694	1,866
Medicine	2,282	79	2,587	2,833
Music	305	5	366	373
Philosophy/psychology	1,374	45	1,386	1,372
Poetry/drama	1,501	41	1,582	1,437
Religion	1,778	-1	2,058	2,121
Science	2,942	22	2,852	3,015
Sociology/economics	6,590	62	6,993	6,814
Sports/recreation	1,225	90	1,224	1,119
Technology	1,720	36	1,888	2,218
Travel	794	-33	581	480
Total	39,372	30	41,698	42,780

Notes: i. Sources: The Bowker Annual
Publishers Weekly
The Mass Media: Aspen Institute Guide to Communication Industry Trends.

ii. A change in reporting was made by Publishers Weekly for data in 1976-77. See note vi. in Table 3.

TABLE C

AAP-Estimated Sales Totals and Percentage Growth for the Book Publishing Industry, by Type of Book, 1971-1977

Sales Totals--in millions of dollars

	1971	1972		1973	
	Sales	Sales	% Changes From 1971	Sales	% Changes From 1972
Trade Books	422.7	442.0	4.6	460.1	4.1
Religious Books	108.5	117.5	8.3	124.7	6.1
Professional Books	353.0	381.0	7.9	405.4	6.4
Book Club Books	229.5	240.5	4.8	262.4	9.1
Mail Order Publications	194.6	198.9	2.2	221.2	11.2
Mass Market Paperbacks	228.8	252.8	10.5	297.1	17.5
University Press Books	39.3	41.4	5.3	42.6	2.9
Elem./Sec. Text Books	496.6	497.6	+0.2	547.9	10.1
College Textbooks	371.5	375.3	1.0	392.2	4.5
Standardized Tests	25.3	26.5	4.8	28.8	8.7
Subscription Reference Books	301.0	278.9	-7.3	262.2	-6.0
Audio Visual/Other	106.2	116.2	14.8	117.8	1.4
Other Book Sales	45.8	49.2	7.4	57.2	4.1
Total Sales	2,917.8	3,017.8	3.4	3,213.6	6.5

- continued

TABLE C
(concluded)

	1974		1975		1976		1977		
	Sales	% Changes From 1973	Sales	% Changes From 1974	Sales	% Changes From 1975	Sales	% Changes from 1976	1977
Trade	522.7	13.6	549.2	5.1	573.3	4.4	631.8	10.2	49.5
Religious	130.6	4.7	154.6	18.4	171.2	10.7	178.4	4.2	64.4
Professional	466.3	15.0	501.2	7.5	559.0	11.5	627.0	12.2	77.6
Book Club	283.6	8.1	303.4	7.0	343.1	13.1	374.3	9.1	63.1
Mail Order	247.0	11.7	279.8	13.3	348.9	24.7	373.0	6.9	91.7
Mass Market	308.9	4.0	356.2	15.3	415.4	16.6	515.9	24.2	125.5
University	46.1	8.2	48.8	5.8	53.5	9.6	56.1	4.9	42.7
Elem./Sec.	598.8	9.3	643.1	7.4	640.1	-0.5	704.8	10.1	41.9
College	453.4	15.6	530.6	17.0	564.0	6.3	592.4	5.0	56.3
Standardized	34.2	18.7	36.7	7.3	40.0	9.0	44.9	12.3	77.5
Subscription Ref.	280.2	6.8	258.1	-7.9	286.5	11.0	302.0	5.4	0.3
Av./Other	143.0	21.4	137.3	-4.0	142.0	3.4	153.3	8.0	44.4
Other Sales	55.1	7.6	51.7	-6.2	48.2	-6.8	51.6	7.1	12.7
Total	3,569.9	11.1	3,830.7	7.9	4,185.2	8.7	4,605.5	10.0	57.8

Notes: Source: AAP Industry Statistics. These data are estimates based on a survey of industry firms. One cannot discount the possibility of systematic bias resulting from respondents' self-selection.

clubs are either general interest clubs (Book-of-the-Month, Literary Guild) or special interest clubs (Science Fiction Book Club, Mystery Guild).

b. Book Manufacturers

Manufacturers are the firms that undertake the physical production of a book: typesetting, printing, and binding. Very few book publishers own their own manufacturing businesses; they contract out the necessary work. But good functional design helps to sell books so publishing firms do have production departments which deal with the manufacturers. Hence, coordination is required between the book publishers and book manufacturers.

3. Distribution

The distribution system for book publishing has two main categories:

- direct publisher-to-consumer sales (including book club sales).
- retail outlet sales.

Direct sales are of two types: mail order sales of publishers and book club sales. Direct sales account for about 15% of sales dollars, about evenly divided between the two classes. Participation in the book club sector has grown steadily, as Table D shows.

The remaining 85% of the sales occur.

through retail outlets. This publisher-to-consumer distribution system includes these classes of firms: national distributors, independent distributor wholesalers, jobber wholesalers, and retail outlets. National distributors and independent distributors are

Table D

Number of Book Clubs in U.S.
1958-1975

Year	1958	1961	1963	1965	1967	1969	1971	1973	1975
Number	56	55	57	62	127	138	156	161	198

Source: The Mass Media: Aspen Institute Guide to Communication Industry Trends.

primarily the distribution channel for mass market paperbound books. Jobbers, together with publishers' warehouses, are primarily the distribution channel for trade books.

Eleven national distributors handle substantially all mass market paperback distribution. This distribution system is simply piggybacked onto the magazine distribution network. A national distributor is generally the arm of a publisher handling distribution. Table E lists the major nine and their ownership. Most started out owned by magazine publishers but through some corporate change, many no longer are. Two national distributors handle books only. Some national distributors handle only books and magazines published by the distributors' owners; others will distribute a house's line of books without being in any way affiliated with the house, and if the line does not compete with one of the lines of the distributors' owners. National distributors have their own national sales forces, and sometimes will supplement their publisher-clients' promotion and publicity efforts. Although national distributors may set up accounts directly with retailers, their books are usually delivered to retailers through wholesalers.

Wholesalers are divided into independent distributors (IDs) and jobbers. Independent distributors generally service a particular geographic area on an exclusive basis, handling both magazines and mass market paperbacks. There are more than 500 IDs in the U.S. and Canada. Most started as local distributors of magazines and national newspapers, later adding paperbacks. IDs get their books from national distributors.

TABLE E

Paperback National Distributors

National Distributors	Owner	Books Distributed	
		Owned by Same Owner	Other
1. Dell Distributing	Doubleday	Dell	-
2. Fawcett Marketing Services	Columbia Broadcasting (CBS)	Crest Gold Medal Popular Library (owned by CBS)	-
3. Independent News Co. (IND)	Warner Communications	Warner	Pinnacle
4. International Circulation Distributors (ICD)	Hearst	Avon	HBJ/JOVE
5. New American Library (NAL)	Times Mirror	NAL	Daw
6. Pocket Books Distribution	Gulf & Western	Pocket	Harlequin Playboy Press
7. Kable News Co.	Amrep Corp.	-	Only "Outside" Books: Berkley Beeline, Major, Leisure, & Zebra
8. Publishers Distributing Co. (PDC)	Filmways	Charter Ace (Grosset's (owned by Filmways)	
9. Select Magazines	Cooperative of Magazine Publishers (Reader's Digest, Family Circle, McCall's, Popular Science, Better Homes & Gardens)	-	Bantam (has contract to only distribute this paperback.)

Until recently, most IDs were force-fed magazines and mass market paperbacks from publishers and national distributors. Now IDs have more but not complete discretion in determining which books they will handle. Usually, an ID will allocate a monthly budget for each publisher he deals with, allowing the publisher to supply him with books to fit the budget. However, the more success a publisher's line has, the more bargaining power the publisher has with the ID to increase his budget. In the case of 'hot' titles, a publisher may be able to tie-in other titles as a condition of allowing the ID to handle the best seller.

An ID distributes to mass market outlets such as drug stores, supermarkets, and newsstands through its own truck fleet. An ID buys most of its magazines discounted 40% from cover price and delivers them to retailers discounted 20%. An ID buys paperbacks up to a 46% discount and sells to retailers at discounts between 20-36%. Discounts are constantly negotiable. An ID makes selections for the mass market outlets it services based upon its knowledge of what sells in a particular type of store in a certain area. As retailers do not have enough space to handle all that is published (around 200 mass market titles per month), IDs give retailers an assorted selection of what they feel will sell.

Finally, IDs have exclusive franchises to the extent that other IDs are unlikely to invade their territory. It is nonexclusive in that publishers and jobbers are not prohibited from supplying direct service to accounts in an ID's area.

The second class of wholesaler is the jobber. Traditionally, jobbers have handled hardcover books and trade paperbacks, distributing to bookstores and libraries. Now some have added lines of mass market paperbacks, just as some IDs have added trade paperbacks and even some hardcover books. A jobber is not confined to a geographical area and does not place prime reliance on its own trucks for distribution but relies on common carriers. Jobbers do not handle magazines.

Data on wholesalers are sketchy and inadequate, appropriate only for understanding the magnitudes involved; see Tables F and G for estimates of book sales by wholesalers and jobbers in the U.S.

Retail outlets include general retailers (divided into bookstores--single and chain--and mass market outlets--supermarkets, newsstands, and others), college stores, libraries and institutions, and schools.

Bookstore sales have grown greatly in recent years. Figure 2 and Table H indicate this trend (the Census Bureau's definition of bookstore is an establishment primarily selling new books and periodicals). The most spectacular growth has been the paperback category, defined as stores with stock consisting of more than 80% paperback. From 1958 to 1975, these stores grew from 23 to 598. Bookstore chains show a steadily increasing but small market share, reported in Table I.

4. Consumption

Thorough examination of consumer demand for books--combined demands of individual consumers, libraries and institutions, local,

Table F

Number of Book Wholesalers By Type of Wholesaler

Year	Book-Store	Special Subjects	School & Library	Remainder	Book Magazine	Total Book Wholesalers
1958	16	10	50	14	2,164	180*
1963	18	30	59	13	2,630	261*
1967	17	35	73	10	2,734	877
1972	18	35	66	12	2,628	1,031
1978	26	52	86	27	NA	1,029

Source: Publishers Weekly
U. S. Census of Business

*Includes only non-mass market paperback wholesalers.

Table G

Estimated Book Sales By Wholesalers and Jobbers in U.S. by Channel of Distribution, 1972 & 1976 (millions of dollars and units)

Channel of Distribution	1972		1976		1972-1976, % Change	
	$	Units	$	Units	$	Units
General Retailers	175.8	207.9	331.4	256.0	88.5	23.1
College Stores	45.5	45.0	66.5	41.9	46.2	-6.9
Libraries and Institutions	218.1	63.3	274.1	53.1	25.7	-16.1
Schools	117.9	75.7	104.3	53.5	-11.5	-29.3
Export Sales	24.2	10.1	37.0	11.7	52.9	15.8
Totals	581.3	401.3	813.5	416.0	39.9	3.7

Source: The Mass Media: Aspen Institute Guide to Communication Industry Trends

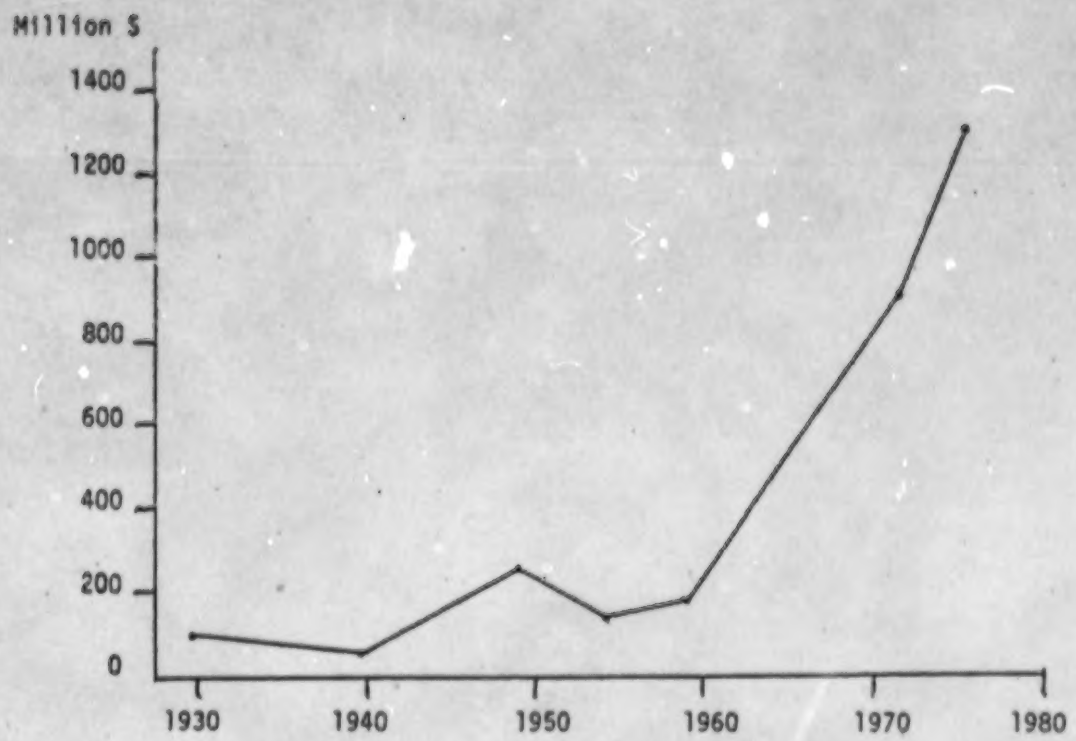


Figure 2: Annual Sales of U.S. Bookstore Establishments, 1930-1976

Table 8

Annual Sales of Bookstore Establishments,
Selected Years

Year	1929	1939	1948	1954	1958	1963	1967	1972	1976
Annual Sales	117.0	73.8	267.7	151.2	196.3	279.5	NA	907.0	1,300.0
Number of Establishments	2,809	2,845	2,905	2,642	2,885	3,154	NA	7,830	12,000

Source: Lofquist, in Printing and Publishing.

TABLE I

Number, Sales, and Percentage of Single- and Multi-Unit Bookstores in U.S., by Number of Stores Owned, 1958-1972

Number of Stores

	1958	1963	1967	1972
Total, All Bookstores	2,885	3,154	2,960[a]	7,830
Percentage of Total Which Are:[b]				
Single-Unit Stores	90.1%	86.2%	76.2%	81.2%
Operated by Single-Establishment Firms	88.2	84.2	74.2	79.8
Operated by Multi-Establishment Firms	1.9	2.0	2.0	1.4
Multi-Unit Stores	9.9	13.8	23.8	18.8
2 Units	4.2	6.1	7.0	3.7
3 Units	.9	1.7	1.6	2.3
4 to 5 Units	1.6	2.0	2.9	2.1
6 to 10 Units	.6	1.6	1.9	2.1
11 to 25 Units	1.5	1.0	2.7	1.6
26 to 50 Units	1.1	1.0	1.6	1.7
51 to 100 Units	0	.4	5.3	2.6
101 or more Units	0	0	0	2.7
Total, 6 or more Units	3.2	4.0	11.5	10.7

Sales (millions of dollars)

	1958	1963	1967	1972
Total, All Bookstores	$196.3	$279.5	$427.6	$877.6
Percentage of Total Sales by:				
Single Unit Stores	72.2%	67.9%	67.7%	58.4%
Operated by Single-Establishment Firms	68.3	63.2	59.4	53.9
Operated by Multi-Establishment Firms	3.9	4.7	8.3	4.5
Multi-Unit Stores	27.8	32.1	32.3	41.6
2 Units	10.2	11.7	9.2	8.3
3 Units	1.3	2.5	3.1	5.3
4 to 5 Units	3.7	7.3	3.5	4.5
6 to 10 Units		2.7	3.6	3.1
11 to 25 Units	12.6		5.9	5.1
26 to 50 Units		8.0		3.7
51 to 100 Units			7.0	
51 to 100 Units	0			11.5
101 or more Units	0	0	0	
Total, 6 or more Units	12.6	20.7	16.5	23.4

Source: U. S. Census of Business.

Notes: [a]Includes only those bookstores with payrolls.

[b]Percentages are computed on the total number of bookstores in operation for the entire year.

state, and federal governments, and export demand--remains a topic outside the scope of this study.

Consider Table J. Consumer expenditures differ from publishers' receipts in that it includes retail and other indirect sales as well as direct sales. Over 1976 and 1977, purchases increased 9.3%; the number of units dropped slightly; average prices paid per unit increased 9.8%. By type of book, consumers bought less mass market paperbacks and textbooks, slightly more trade books and a tremendous increase in mail order publications. Growth in the book industry differs by industry division.

As for characteristics of book readers, surveys taken indicate that book buyers are predominantly more affluent, more educated, and more urban than the population as a whole. See Table K for results from one survey, taken in 1976-77.

TABLE J

Estimated Consumer Expenditure in 1975 and 1976

-in millions of dollars and units

	1976		1975		% Change		$ per Unit		
	$	Units	$	Units	$	Units	1976	1975	% Change
Trade	862	199	819	198	5.3	0.5	4.33	4.14	4.6
Religious	278	75	248	70	10.5	7.1	3.65	3.54	3.1
Professional	550	76	491	69	12.0	10.1	7.24	7.13	1.7
Book Clubs	333	106	296	99	12.5	7.1	3.14	2.99	5.0
Mail Order Pub.	358	31	287	26	24.6	18.5	11.61	11.04	5.2
Mass Market Paperback	653	434	559	446	16.8	-2.4	1.50	1.25	20.0
University Presses	57	8	52	8	4.6	1.3	7.13	6.50	9.7
Elem. Text	616	231	619	243	-0.5	-4.9	2.67	2.55	4.7
College Text	622	83	578	85	7.6	-1.7	7.49	6.81	10.0
Subscription Reference	266	1	238	1	11.8	4.8	253.73	237.80	6.7
Total	$4,591	1,244	$4,187	1,245	9.6	-0.1	$3.69	$3.36	9.8

Source: Publishers Weekly.

TABLE K

Results of a Survey Measuring Book Purchases in U.S., by Type of Book and Selected Characteristics of the Buyer, 1976/77

"Purchased a book in the past six months"

Type of Book Buyer	Any Book		Paperback		Hardcover	
	Women	Men	Women	Men	Women	Men
Race:						
White	40.0%	33.5%	34.7%	29.2%	17.7%	16.0%
Black	23.9	21.9	21.3	20.0	7.1	8.6
Marital Status:						
Married	38.4	29.0	32.8	25.0	16.5	12.9
Single	52.7	46.8	47.8	42.5	23.3	24.7
Other	27.8	25.7	24.8	21.1	12.1	11.7
Children in Household:						
Under 6 years	38.7	31.3	33.2	26.6	15.0	14.7
6-17 years	42.1	31.2	36.9	27.0	18.1	13.9
No child under 18	34.7	32.3	30.3	28.4	15.5	15.8
Locality:						
Metropolitan-Central City	39.2	35.1	34.4	30.4	17.4	16.0
Metropolitan-Suburban	41.6	36.6	36.8	32.3	17.9	18.1
Non-Metropolitan	31.2	22.6	25.9	19.5	13.3	9.9
Region:						
Northeast	40.0	37.9	36.3	34.5	15.9	17.9
Central	39.4	28.5	33.9	24.6	15.7	12.1
South	31.4	27.1	26.9	24.0	13.3	12.6
West	45.7	40.4	39.1	33.2	24.4	21.1
County Size						
"A" counties	43.2	36.7	37.9	32.0	18.7	17.6
"B" counties	38.0	35.1	33.4	30.3	16.3	18.2
"C" counties	36.2	31.0	30.3	28.0	16.1	12.3
"D" counties	26.3	16.5	22.7	14.0	11.2	6.5
Age:						
18-24 years	50.2	42.3	45.1	38.6	20.4	20.9
25-34 years	50.5	40.2	43.3	34.1	21.8	20.6
35-44 years	43.1	33.1	37.7	29.4	19.2	13.6
45-54 years	36.6	30.2	31.3	25.7	17.9	15.1
55-64 years	26.8	20.5	23.3	18.2	11.7	7.5
35-49 years	42.4	34.1	37.3	29.5	19.1	15.9

-continued

TABLE K
(concluded)

Type of Book Buyer	Any Book		Paperback		Hardcover	
	Women	Men	Women	Men	Women	Men
Occupation:						
Women:						
White collar	53.9		47.1		25.4	
Other employed	31.8		28.6		11.8	
Not employed	31.9		27.4		13.4	
Men:						
Professional/managerial		49.2		42.4		25.9
Clerical/sales		42.0		36.4		23.5
Other employed		26.1		23.2		10.7
Education:						
Attended college	61.1	53.6	52.9	46.3	31.6	30.5
High School graduate	40.3	30.1	35.0	26.6	16.3	11.4
Did not graduate high school	19.6	14.8	17.3	13.0	6.3	4.8
Household Income:						
$20,000 and over	56.2	42.6	48.8	36.7	25.3	22.6
$15,000-$19,999	45.9	36.6	39.7	32.2	20.8	17.2
$10,000-$14,999	38.5	28.8	32.3	25.5	18.8	12.6
$8,000-$9,999	33.2	25.7	29.4	22.7	10.6	11.7
$5,000-$7,999	30.2	24.8	27.8	21.2	10.2	9.7
Less than $5,000	18.8	19.9	16.6	17.7	6.7	7.0
All interviewees	38.1	32.3	33.1	28.2	16.5	15.2

Source: The Mass Media: Aspen Institute Guide to Communication Industry Trends

III. General Industry Trends

The book industry has been experiencing steady growth in dollar sales, with a 5.3% average annual growth rate (adjusted to correct for inflation) over the period 1954-1975. Growth in new titles per year has been steady and substantially increasing from 8600 in 1950 to over 33,000 in 1977. Over that time, new titles produced per capita more than doubled. Table L presents figures by year.

TABLE L

Publishing Industry Growth,
1950-1977

Year	Sales ($000,000) Current Dollars	Sales ($000,000) Constant Dollars	New	New Editions	Total	Population (Ages 5-68) (000)	Title Output/Capita (/1000)
1950	-	-	8,634	2,388	11,022	122,991	0.070
1951	-	-	8.765	2,490	11,255	124,267	0.071
1952	-	-	9,399	2,481	11,840	126,557	0.074
1953	-	-	9,724	2,326	12,050	128,435	0.076
1954	575.7	964.3	9,690	2,211	11,901	130,389	0.074
1955	-	-	10,226	2,363	12,589	132,319	0.077
1956	-	-	10,007	2,531	12,538	134,242	0.074
1957	-	-	10,561	2,581	13,142	135,542	0.077
1958	885.5	1,341.7	11,012	2,450	13,462	138,602	0.080
1959	998.9	1,479.9	12,017	2,859	14,876	140,805	0.085
1960	1,131.0	1,646.3	12,069	2,943	15,012	143,655	0.084
1961	1,240.1	1,789.5	14,238	3,822	18,060	146,080	0.093
1962	N/A	N/A	16,448	5,456	21,904	148,612	0.111
1963	1,685.7	2,354.7	19,057	6,727	25,784	151,122	0.126
1964	1,825.8	2,511.4	20,542	7,909	28,451	153,597	0.134
1965	2,022.3	2,721.8	20,234	8,361	28,595	156,028	0.130
1966	2,316.2	3,015.9	21,819	8,231	30,050	158,597	0.138
1967	2,320.0	2,936.7	21,877	6,885	28,762	161,078	0.136
1968	2,594.0	3,140.4	23,321	7,066	30,387	163,428	0.143
1969	2,763.2	3,187.1	21,787	7,792	29,579	165,621	0.132
1970	2,924.3	3,199.5	24,288	11,783	36,071	167,548	0.145
1971	2,917.8	3,039.4	25,526	12,166	37,692	170,042	0.150
1972	3,017.8	3,017.8	28,868	11,185	38,053	171,808	0.156
1973	3,213.6	3,037.4	28,140	11,811	39,951	173,271	0.162
1974	3,569.9	3,066.9	30,575	10,271	40,846	174,825	0.175
1975	3,850.7	3,024.9	30,004	9,368	39,372	176,376	0.170
1976	4,185.2	-	32,352	9,346	41,698	178,395	0.181
1977	4,605.5	-	33,292	9,488	42,780	180,180	0.184

Notes:

i. Sources: Publishers Weekly
Bureau of the Census
The Bowker Annual
AAP Industry Statistics
The Mass Media: Aspen Institute Guide to Communications Industry Trends

ii. GNP deflator is used to convert to constant dollars.

TABLE L:
(concluded)

iii. Data based on reports from book publishers to the "Weekly Record" of Publishers Weekly. It is not always comprehensive, certain types of books tend to be under-reported: Some textbooks, mass market paperbacks, and books from university presses.

iv. Definition of "books" has changed over time with most recent definition being any publication of 49 pages or more. This definition has been in use since 1959.

v. In 1967, another change occurred in counting procedure. Before this time, separate volumes in multi-volume sets were counted as if sold separately. After 1967, multi-volume sets were counted in this manner only if each volume had a different title and formed a distinct unit complete in itself.

vi. In 1976, a new system was adopted for reporting title count data in Publishers Weekly. In February, a preliminary report is issued after 12 months of work recording the books listed in the Weekly Record. In August, a final report appears, including the results of additional work, adding up to 18 months of effort, on the books of the same calendar year. Therefore, for the years 1976-77, comparable data to past years would be the preliminary report:

1976	26,983	8,158	35,141	0.151
1977	27,413	8,056	35,469	0.152

TABLE M

Number of Publishing Companies

Year	From Bowker Records: Total Publishers	From Bowker Records: Selected Publishers	U.S. Census: Number of Firms
1958	2,350	613	883
1963	3,557	556	936
1967	4,400	725	963
1972	6,113	959	1,120
1977	7,279	1,234	1,250
1978	10,803	1,213	N/A

Sources: Publishers Weekly
Census of Manufactures

Notes: The criterion for inclusion in Total Publishers is the publication of one new title during the year. The exceptional increase for 1978 is due in part to the inclusion of some existing publishers not heretofore reported.

The criterion for inclusion in Selected Publishers is the publication of five or more new titles during the year for data before 1972, three or more new titles afterwards.

TABLE N

Number, Dollars Earned, and Percentage Shares of Total Sales of U.S. Book Publishing Establishments, by Number of Employees, 1958-1972

Number of Employees	1958	1963	1967	1972	% of total growth, 1958-72, In this class
1 to 4	411	471	496	604	64%
5 to 9	155	152	135	160	2
10 to 19	104	114	104	134	10
20 to 49	93	117	116	125	11
50 to 99	58	48	63	67	3
100 to 249	51	53	62	59	3
250 to 499	15	19	27	29	5
500 to 999	9	10	10	17	3
1,000 to 2,499	7	8	8	9	1
2,500 and over	-	1	1	1	0
Total	903	993	1,022	1,205	100%

Dollars Earned in Millions

	1958	1963	1967	1972
1 to 4	$ 24.1	$ 33.5	$ 32.3	$ 54.9
5 to 9	32.5	32.7	39.8	57.8
10 to 19	33.5	49.7	60.6	88.2
20 to 49	117.3	129.4	124.4	178.9
50 to 99	156.4	124.7	198.0	196.9
100 to 249	210.9	329.4	419.1	441.4
250 to 499	108.1	170.2	396.9	541.1
500 to 999	159.1	310.8	275.5	645.8
1,000 to 2,499	191.5	354.4	588.3	651.8
2,500 and over	-	(a)	(a)	(a)
Total	$1,033.4	$1,534.8	$2,134.8	$2,856.8

Percent of Total Sales

	1958	1963	1967	1972
1 to 4	2.33%	2.18%	1.51	1.92%
5 to 9	3.15	2.13	1.86	2.02
10 to 19	3.24	3.24	2.84	3.09
20 to 49	11.33	8.43	5.83	6.26
50 to 99	15.14	8.13	9.27	6.89
100 to 249	20.41	21.46	19.63	15.45
250 to 499	10.46	11.09	18.59	18.94
500 to 999	15.40	20.25	12.90	22.61
1,000 to 2,499	18.54	23.09	27.57	22.82
2,500 and over	-	-	-	-
Total	100.00%	100.00%	100.00%	100.00%

Notes: [a]Information deleted by government to avoid disclosing data for individual companies. Data included in total for next small category.

Source: Census of Manufactures.

III. Issues for Policy Anslysis

In preparing this paper, we found virtually no prior economic analysis of the book industry. In considering policy issues, we therefore find ourselves engaged mostly in broad speculation based on scanty data of dubious quality. Our discussion of policy issues largely constitutes an agenda for future research.

A. Concentration and Competition at the Publishing Stage

The coarsest look at the publishing stage suggests that entry is simple and frequent. Industry statistics (see Table M) show a steady rise in the number of publishers. However, this first view ignores two obvious considerations.

First, growth in publishing is composed largely of small entrants. Table N shows, for the period 1958-1972, growth in various size classes. These data show growth extremely concentrated in the smallest class of firm, a class whose market share simultaneously declined. The three largest classes (in 1972, 27 firms accointing for 45.4% of industry sales) gained substantial market share but accounted for only 4% of growth in number of firms.

Second, aggregate industry data conceal highly concentrated sub-markets. Table P reports concentration ratios for all book publishing and for selected sub-markets. While "All Book Publishing" exhibits modest and stable concentration ratios, the sub-markets show consistently higher, and in some cases markedly increasing concentration over the 1958-1972 period.

The mass market paperbound book industry is even more highly concentrated. Table Q reports a 4-firm concentration ratio of 53% in 1976, with a single firm (Bantam) accounting for 20% of sales.

The policy implications of high sub-market concentration ratios by themselves are unclear. Though analysis of concentration ratios by industry category is a standard tool in industrial organization analysis, it tells us nothing by itself about the conditions that underlie concentration and therefore supports no clear policy stance. For our purposes, evidence of concentration in the industry serves merely as a background against which to evaluate other, more closely analyzed policy issues.

B. Barriers to Entry in Mass Market Paperbound Production.

1. Development of the sub market.

Pocket Books started the modern American mass market paperback revolution in 1939, using as its model Penguin Books, started by Allen Lane in England in 1935. Taking its cue from Lane, Pocket Books went into the mass market using the channels that magazine publishers had developed. Displayed in retail outlets next to magazines, paperbacks fought with magazines for consumer interest. Now these books seem to be prisoners of that distribution system, which for decades had been geared for magazines. Rules of this system are introduction of new books each month with both wholesalers and retailers being force-fed. This force feeding was initially a result of the paper shortage during and immediately after World War II. Now wholesalers receive suggested allotments that are for the most part automatic.

TABLE P

Ownership Concentrations among U.S. Book Publishing Firms, by Percent of Shipments and Type of Books, 1958-1972

Type of Books	1958	1963	1967	1972	% Change 1958-1972
ALL BOOK PUBLISHING					
Total Shipments (millions of dollars)	$1010.7	$1547.8	$2255.3	$2915.4	
% of Total Shipments by:					
Four Largest Firms	16	18	16	16	0
Eight Largest Firms	26	29	27	27	1
Twenty Largest Firms	45	52	52	52	7
Fifty Largest Firms	65	73	75	75	10
TEXTBOOKS					
Total Shipments (millions of dollars)	$281.7	$471.1	$733.6	$809.6	
% of Total Shipments by:					
Four Largest Firms	33	32	29	33	0
Eight Largest Firms	50	54	50	54	4
Twenty Largest Firms	76	81	79	80	4
Fifty Largest Firms	93	94	94	95	2
TECHNICAL, SCIENTIFIC, PROFESSIONAL BOOKS					
Total Shipments (millions of dollars)	$116.0	$156.3	$240.2	$403.0	
% of Total Shipments by:					
Four Largest Firms	27	32	38	39	12
Eight Largest Firms	43	49	54	57	14
Twenty Largest Firms	71	68	74	76	5
Fifty Largest Firms	91	87	91	92	
RELIGIOUS BOOKS					
Total Shipments (millions of dollars)	$58.6	$81.1	$110.4	$131.2	
% of Total Shipments by:					
Four Largest Firms	30	22	27	36	6
Eight Largest Firms	45	37	46	51	6
Twenty Largest Firms	70	65	74	76	6
Fifty Largest Firms	90	89	96	97	7

-continued

TABLE P: (concluded)

Type of Books	1958	1963	1967	1972	% Change 1958-1972
GENERAL TRADE BOOKS					
Total Shipments (millions of dollars)	$274.7	$458.2	$657.7	$1006.7	
% of Total Shipments by:					
Four Largest Firms	39	30	28	29	-10
Eight Largest Firms	53	46	46	47	-6
Twenty Largest Firms	72	59	70	74	2
Fifty Largest Firms	90	89	91	92	2
GENERAL REFERENCE BOOKS					
Total Shipments (millions of dollars)	$163.6	$207.3	$216.3	$235.2	
% of Total Shipments by:					
Four Largest Firms	--	87	81	71	-16
Eight Largest Firms	--	96	91	82	-14
Twenty Largest Firms	--	100	--	94	-6
Fifty Largest Firms	--		100	99+	--
OTHER BOOKS AND PAMPHLETS					
Total Shipments (millions of dollars)	$96.0	$154.8	$200.1	--	
% of Total Shipments by:					
Four Largest Firms	--	37	48	--	--
Eight Largest Firms	--	48	61	--	--
Twenty Largest Firms	--	68	78	--	--
Fifty Largest Firms	--	85	92	--	--
BOOK PUBLISHING NOT SPECIFIED BY KIND OF BOOK					
Total Receipts (millions of dollars)	$20.2	$18.9	$97.0	$155.6	

Source: Census of Manufactures

TABLE Q

Concentration Ratios for
Mass Market Paperback Publishing

Year	% of Total Sales Accounted for by 4 Largest Companies	8 Largest Companies
1973	51	76
1976	53	81

Publishers by Rank		Market Share	Annual Sales (1976)
1.	Bantam Books	20%	
5.	Fawcett	9	$40 million
11.	Popular Library	2.5	$10 million

Source: Department of Justice.

2. The Distribution Relationship

As we discussed in section II, mass market publishers and their distributors are closely linked through exclusive distribution contracts, contracts requiring distribution of no "competing" line, or through ownership connections. These arrangements can be viewed from two perspectives: as barriers to entry of new publishers into the mass market or as mechanisms for dealing with uncertainty.

The entry barrier is apparent. To merchandise mass market paperbacks, a publisher needs a way to distribute to regional wholesalers. Because of the high output of new titles (in 1972, 2200 mass market releases, or nearly 200 per month) and limitations on retail display rack space, distributors play an active role in promoting titles to wholesalers and, indirectly, to retailers. To the extent that an entrant must simultaneously begin operations at two stages of production, it must overcome greater barriers of acquisition of capital and expertise than would be required to enter only one stage of the industry.

Certainly research is needed to determine whether this integration has anticompetitive effects and whether such effects are the intent of the arrangements. On the other hand, research should also explore whether the arrangements are the results of a search for more efficient ways to organize.

Chandler (1977), in his study of the reorganization of production and distribution in the 19th century, argued that manufacturer integration into distribution (either directly or through franchise) was frequently

the result of inadequacies in the previously existing distribution system. Chandler writes:

> In the 1880s two types of producers embarked on such a strategy of vertical integration. One set was composed of those who adopted new continuous-process machinery that swiftly expanded the output of their industrial establishments. Such entrepreneurs found that the existing marketers were unable to move their goods quickly enough or to advertise them effectively to keep their high-volume production facilities operating steadily. Most of these manufacturers continued to distribute through wholesalers, but they assumed responsibility for the coordination of the flow from the factory to the consumer.
>
> The second set of pioneers were manufacturers who required specialized distribution and marketing services which wholesalers, mass retailers, manufacturers' agents, and other middlemen were unable to provide. (Chandler, 1977, pp. 287-288).

Our examination of mass market paperback publishing suggests that it may have properties analogous to Chandler's first case. We have previously spoken of books as products differentiated by class. At a closer level of analysis, each title is a differentiated product, i.e., usually a product with an extremely short lifespan (two weeks is a typical display period in mass market outlets).

Advance knowledge of demand for a specific title is unavailable. The publisher has the task of estimating demand, so as to specify a production run. The publisher also assumes the risk of error: authors receive advances which are non-refundable pre-payments of royalties, and the marketing institutions from independent distributor to retailer receive credit on unsold copies.

However, decisions by distributors and wholesalers affect the accuracy of a publisher's demand estimates. Sales depend on effective

merchandising through to the retail level. The industry tendency--eroding only recently--for national distributors to "force-feed" wholesalers a publisher's line could give them key strategic control over the success of particular titles. The need to coordinate distributors' decisions with mass market publishers' planning provides an incentive derived from efficient market considerations to integrate either through joint ownership or other mechanisms that effect a long-run joining of interests.

Obviously, this argument is speculative. We offer it simply to illustrate the sort of efficiency considerations that policy analysis of the mass market paperbound sub-market should examine.

3. Access to Wholesalers

Wholesalers are regional monopolies. As such, they must be examined as possible barriers to access of a new mass market publisher to retail markets.

Current industry operations have several characteristics that appear to impede access of new suppliers (publishers or national distributors) to wholesalers.

Independent distributors (IDs) are the agents who select the titles for retail display in their areas. Customarily, an ID's stock is the product of publishers' supplying assortments of titles to fix a monthly budget.

Established publishers have important advantages over newcommers in their dealings with wholesalers. They can use their "back-

lists"--stocks of titles that have sold steadily over a long period--or current "hot" titles as leverage on IDs to increase the monthly budget and to accept other titles. A new entrant, lacking a backlist and less likely to obtain best sellers (see below), lacks this leverage.

Policy analysis should focus on examination of the actual operating characteristics of independent distributors and on possible alternative channels of access to the retail mass market. Jobbers--having no regional monopoly but traditionally oriented to supplying clothbound and quality paperbound markets--are beginning, in some cases, to handle mass market paperbacks. The character of the bargaining process between publishers/national distributors and IDs needs careful examination and modeling effort.

4. Obtaining Paper Reprint Rights

Paperback reprint rights for a clothbound book are part of the class of "subsidiary rights" negotiated in a publisher-author contract. Industry practice is that the hardcover publisher controls subsidiary rights subject to provisions for dividing subsidiary income with the author.

Established mass market paperback publishers have an obvious advantage in bidding for reprint rights. Having an established marketing system, they can bid both with more certainty and with a higher credibility to the hardcover publisher. The main policy issue here relates less to entry than to exit and merger. As the mass market publishing sector becomes more concentrated, authors and hardback publishers are at a bargaining disadvantage.

5. Summary

The four areas of possible entry barriers we have described interact greatly. For example, lack of a best seller impedes an entrant's negotiations with wholesalers; lack of established relationships with wholesalers makes difficult obtaining paperback rights to a hardcover best seller. The final comment we make on policy analysis of this sub-market is that these interactive effects need to be examined explicitly to identify mechanisms that can promote entry while not disrupting efficient market operations.

C. The Role of Mail Order Sales

Mail order sales, including both direct publisher-to-consumer selling and book club sales, have been rising steadily. Book clubs appear to be the key to this growth. Two questions arise.

First, to what extent do book clubs represent an undue concentration of influence over the success of a book? Author's Guild data are that 10 book club publishers accounted for 89% of book club net sales in 1976; two firms--Doubleday (Literary Guild and many specialized clubs) and Book-of-the-Month--accounted for over 50% of book club sales.

Second, do mail order sales play an important role in book dissemination and is that role threatened? Some have argued that retail book distribution is concentrated in urban areas, leaving less densely populated areas highly dependent on mail order sources. Recent and ongoing Postal Service rate increases have been particularly high for books, raising the possibility of a major change in the costs of mail order distribution. In 1970, the postal rate was 18¢ for the shipment of

a book through the mail based on an average weight of a book just under two pounds. Under the new schedule, as of April, 1978, the rate was 41¢ for a two pound book; in May, it was 50¢, in July, 66¢. By July, 1979, it will be 81¢.

To the extent that mail order book distribution proves to be serving important social policy goals, changes like the postal rate increases need to be evaluated for their impact on this sector.

D. Author Access to Markets

The Authors' Guild has been vocal in criticizing tendencies toward merger and concentration in publishing. Authors' ability to sell their work and have it distributed effectively is a widely discussed policy concern; because of its implications concerning economic restrictions on effective exercise of First Amendment rights, it often seems to dominate other issues in policy discussions. In our view, two classes of policy issues concern authors: (1) does industry structure unduly restrict new authors' ability to publish; (2) does industry structure unduly weaken established authors' bargaining position? We discuss each area in turn.

1. New Author Access

In an economic sense, new authors are a class of fledgling, independent entrepreneurs seeking to gain access to the final market through established institutions. So viewed, they share the problems of small, new entrants into many other industries: signaling to later stages of production that their product is of a quality

sufficient for purchase. The highly differentiated product they supply makes evaluation of a newcomer different; established authors have the competitive advantage of a track record that gives some guide to the marketability of new products by them.

Policy interest appears to focus on this industry over others for two reasons:

- association of impediments to access with effective curtailment of authors' First Amendment rights to express their views freely and readers; rights to see diverse views in print.
- a view of authors as creative artists, a class of producer given special policy attention in other markets as well.

Impediments to new author access have several sources. First, the mass market paperback industry has as important components backlist sales and "series" publications by established authors. Another apparently important component, though one could locate no estimates of the magnitude, is commissioned work--manuscripts written to specification implementing ideas originated by publishers. Given limits on rack space and domination of the display decision by IDs, new authors, even if they can persuade publishers to mass market their work, have serious access limits imposed by structural features at later stages in the distribution process.

New author access is most likely via entry through the cloth-bound (or recently, trade paperbound) segments of the industry. While

many new authors fail to get in print, we know of no clear evidence that this failing is anything more than a necessary market limitation on the volume of production. Clearly the raw facts here need to be unearthed.

Economic policy research on the new author access problem can, we think, be fruitfully directed to these questions:

- what portions of various sub-markets represent publisher-originated, not author-originated, manuscripts?
- do small publishers and author-publisher risk-sharing arrangements provide effective routes for new authors to signal his or her market potential? If not, what instututional changes could help these mechanisms serve as proving ground for new authors?

2. Established Author Bargaining

Established authors, especially mass market authors, are a decentralized stage of production facing a centralized publishing stage. As such, they potentially are disadvantaged in negotiations. Areas deserving investigation include:

- the extent to which publishers' associations standardize publishing agreements in a sub-market, impeding bargaining over terms and conditions.
- the extent to which mergers across sub-markets (for example, a hardcover house acquiring a mass market paperback publisher) make current industry conventions on reprint subsidiary rights inappropriate.

- the extent to which decisions made at concentrated stages of the production and distribution process exert excessive control over the success of a book.
- whether policy should support increased diversity in institutions that apportion risk, so as to fill the gap between author self-publishing and conventional publishing practices.

V. Conclusions: An Agenda For Research

Effective economic analysis of the policy issues raised by the structure of and the forces impinging on the book production industry is best done, we think, in the framework of a systematic research program. In concluding our survey of the economics of book publishing, we identify elements as central to such research:

- applying to the industry modeling techniques that assume many differentiated products with seller uncertainty about the composition of demand.
- searching for possible economic efficiency bases for the current industry structure.
- investigating the factors that influence whether a book will be financially successful, and examining whether particular participants benefit from their strategic position concerning those factors.
- to the extent that efficient markets and easy access to the "marketplace of ideas" are in conflict, identifying the economic costs of and workable strategies for promoting increased access.

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